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C O N F I D E N T I A L ALGIERS 001164

SIPDIS

STATE PASS TO OPIC

E.O. 12958: DECL: 06/07/2015

TAGS: [EFIN](#) [ECON](#) [AG](#) [OPIC](#)

SUBJECT: ALGERIAN BANKS WILL FINANCE DESALINIZATION PLANTS

REF: A. RIVERA/PIGNATELLO E-MAIL OF 6/6/05

[B](#). 04 ALGIERS 02287

Classified By: Ambassador Richard W. Erdman, for reasons 1.4 (b) and (d).

SUMMARY

[1](#). (C) Minister of Energy and Mines Khelil made clear in a June 6 meeting with Ambassador that the GOA had given careful consideration to its plans to finance future desalinization plants. While Algerian state banks did not have much experience in project financing, they had to start somewhere. Local financing of the projects was in the Algerian national interest, and the Government had issued instructions on this basis. Khelil acknowledged the lack of Algerian expertise in the field made delays inevitable. Nonetheless, Sonatrach and the Ministry of Finance had the means to provide technical resources and training. Funding the plants with domestic capital was a priority. In our view, the GOA is unlikely to reverse its decision anytime soon. (End Summary.)

LOCAL BANK FINANCING IN THE NATIONAL INTEREST

[2](#). (C) In a June 6 meeting with Minister of Energy and Mines Khelil, Ambassador inquired how the GOA intended to finance the construction of planned desalinization plants. Khelil, in the presence of his staff and POLEC Chief, said the GOA had issued instructions to finance the plants from Algerian bank reserves. Asked if the GOA had carefully reflected on this course of action, Khelil listed a number of reasons for the decision. First, local bank financing would mitigate the exchange rate risk and reduce associated insurance costs. The costs of closing deals financed by external funds would also be diminished. Finally, the local banks had "plenty of local money (to lend) at competitive rates."

OPPORTUNITY TO BUILD EXPERTISE

[3](#). (C) Ambassador inquired if Algerian banks had the expertise necessary to finance the projects. In response, Khelil twice repeated the phrase, "We are going to have to teach them." He added that Algeria had a model from the Hamma desalinization project which could be modified and applied locally. Algeria, explained the Minister, had a need to improve its banking sector. Acknowledging Ambassador's point that local bank financing would delay the projects, Khelil said such delays were inevitable given the lack of Algerian expertise. Nonetheless, Sonatrach's financial personnel and the Ministry of Finance would provide technical resources and training. Noting the banking system in Algeria was overly liquid, the Minister declared that the local banks must be given "the chance to learn" in order to put the reserves to good use.

COMMENT: QUICK REVERSAL UNLIKELY

[4](#). (C) Given the ease with which the Minister listed the reasons for which the GOA would fund these projects from local bank funds, and his resolve in defending the Government's decision, it is unlikely that the decision will be reversed in the near term. The GOA appears ready to accept project delays as a trade-off for building local banking expertise. It remains to be seen if pressure for building the plants quickly will lead to a reversal of the decision sometime down the road.

ERDMAN